

TAX POLICY AND GLOBALISATION: A COMPARATIVE CASE STUDY OF RETIREMENT SAVINGS TAXATION

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Economic growth and population ageing have been important influences on social policy spending since the mid 1960s.¹ However, over the past 25 years the potential impact of a third influential factor has been introduced: globalisation. While economic factors remain highly relevant, questions are being raised about the role of globalisation in social policy.

A number of theories exist on the impact of globalisation on social policy. Two theories are most frequently debated; firstly, that globalisation limits the ability of the state to control social policy and secondly, that globalisation is not the cause of the perceived 'welfare state crisis' and factors such as cultural perspectives and ideologies create resistance to the path of globalisation in social policy.

The paper investigates the influence of globalisation on tax policy, using the taxation of retirement savings in Australia and New Zealand as a comparative case study. Over the past two decades Australia and New Zealand have adopted vastly different policy solutions to the 'problem' of population ageing; Australia with generous tax concessions and compulsory occupational superannuation, New Zealand with a small tax incentive and a universal state pension. These different approaches are analysed within the framework of the globalisation literature.

I INTRODUCTION

Economic growth and population ageing have been important influences on social policy spending since the mid 1960s.² However, over the past 25 years the potential impact of a third influential factor has been introduced: globalisation. While economic factors remain highly relevant, questions are being raised about the role of globalisation in social policy.

Typically, globalisation is described as the reduction of geographical boundaries to encourage free trade flows. Tax policy is not immune to the influence of globalisation, and tax reforms since the 1980s bear witness to this with the adoption of broader base, lower rate tax systems throughout the Organisation for Economic Co-operation and Development (OECD).

As spending on the aged, in the form of superannuation and other provisions, typically accounts for over a third of welfare state budgets among most OECD countries,³ it may be expected that such significant expenditures may be pursued for rationalisation to assist in maintenance, or improvement, of a country's competitive advantage in the global arena. This paper investigates the influence of globalisation

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¹ Francis G Castles, 'Social Expenditure in the 1990s: data and determinants' (2005) 33 *Policy and Politics* 412.

² Ibid.

³ Above n1, 422.

on tax policy, using the taxation of retirement savings in Australia and New Zealand as a comparative case study.

The paper starts with an introduction to tax policy and globalisation. This is followed by a brief review of the literature associated with globalisation, with a focus on research linking globalisation with tax or social policy. The paper then provides a history of the evolution of retirement savings taxation policy in Australia and New Zealand. This is followed by analysis of the extent to which international direction influenced the policy adopted in each country. Data for the analysis was collected from primary source documents, including archival documents, newspaper commentary and submissions to Task Forces, Consultative Committees and Senate Select Committees, together with interviews undertaken with individuals in both countries who were involved in the policy making process from the mid 1980s.

Australia and New Zealand adopted different approaches to retirement savings than many OECD countries. Australia was among the first country to fully adopt a compulsory occupational scheme and has also provided generous retirement savings tax concessions for a number of years. However, until recently Australia has been unique in taxing superannuation at all three stages; contributions, fund earnings and withdrawal.⁴ New Zealand does not have a mandatory occupational superannuation scheme and has only recently reintroduced a small tax incentive after a 20-year absence of such a concession. The research sets out to offer a potential explanation for these different approaches, within the context of a global environment.

II TAXATION POLICY

From a taxation perspective, most income tax systems in OECD countries give preferential treatment to pensions. Such preferential treatment may take the form of tax relief on a portion of, or all, pension income received, or the taxation system may privilege those receiving pensions in the form of additional allowances or zero-rate personal income tax bands. In addition, tax concessions generally exist to encourage individuals to save for their retirement.

The levels of taxation applied at various stages distinguish different taxation arrangements. Typically these are referred to in the order of contributions, investment earnings and withdrawals: T refers to fully taxed; E is tax exempt; and t refers to concessional taxation. The system of taxation in New Zealand for retirement income savings is 'tTE' referring to a tax concession at the contribution point, taxed investment income and exempt benefits.⁵ This scheme was introduced in 2007. From 1988 to 2007 New Zealand's scheme was TTE, which provided no preferential tax treatment for retirement savings. No other OECD country has adopted a TTE system.

The Australian model is 'ttE' as contributions and investment earnings are taxed, but at preferential rates to other forms of savings. Withdrawals from taxed funds by individuals aged over 60 years are tax exempt. These arrangements were implemented in July 2007.

III GLOBALISATION

Typically, globalisation is framed as the "internationalization of production, capital flows and markets, the emergence of trans-national and supra-national agencies and

⁴ These were all taxed at concessional rates.

⁵ A small tax incentive was introduced in April 2008 in conjunction with the KiwiSaver scheme.

the internationalization of culture. The changes are economic, political and social”.⁶ The concept of globalisation has been driven by economic forces including increased labour mobility, reductions in trade barriers and deregulation of financial markets. Globalisation is not limited to influencing macro-level functions, it may also be responsible for the transmission of ideas; for example, McClelland and St John suggest that globalisation may be credited for the adoption of neo-liberal economic policies in both Australia and New Zealand in the 1980s.⁷

A Strong Globalisation Theory

Research is divided on the impact of globalisation on social policy. One of the key arguments from the globalisation literature is that as it becomes easier for businesses, individuals and capital to locate to the most tax advantageous jurisdiction, governments will be under increasing pressure to reduce tax rates to ensure their attractiveness to future investors. The associated suggestion is that in an environment of reducing taxes due to this increased tax competition, social welfare spending would inevitably reduce. Historically, this perspective (known in the literature as the ‘strong globalisation theory’ or the ‘convergence theory’, as policies become more alike) has been among the most frequently debated. The strong globalisation theory suggests that globalisation undermines welfare states, diminishes the ability of the national state to control social policy and creates a ‘marketised’ welfare state.⁸ This is a contentious claim, resulting in considerable academic debate.

A supporter of the strong globalisation perspective is Deacon, who suggests that globalisation creates a challenge to the provision of welfare and “to the prospects for equitable social development in developing and transition economies”.⁹ Deacon suggests that this problem arises as the global environment limits alternative options and also highlights the role that global organisations (such as the World Bank) play in shaping global social policy. This issue is discussed in greater detail later in this section.

Mishra has been a frequent commentator supporting the strong globalisation theory.¹⁰ Mishra argues that globalisation has created significant constraints on the autonomy of the state in social policy formation.¹¹ Furthermore, Mishra claims that political and ideological pressures stemming from globalisation have “impinged significantly on labour markets, taxation, social spending and systems of social protection”.¹²

The strong globalisation theory has been frequently challenged, particularly among more recent research. Among other criticisms, it has been called “wildly overstated,

⁶ Paul Wilding, ‘Globalization, Regionalism and Social Policy’ (1997) 31 *Social Policy & Administration* 411.

⁷ Alison McClelland and Susan St John, ‘Social Policy Responses to Globalisation in Australia and New Zealand, 1980 – 2005’ (2006) 41 *Australian Journal of Political Science* 177.

⁸ Virpi Timonen, *Restructuring the Welfare State: Globalization and Social Policy Reform in Finland and Sweden*, 2003, 40; and Nicola Yeates, ‘Social Politics and Policy in an Era of Globalization: Critical reflections’ (1999) 33 *Social Policy & Administration* 372.

⁹ Bob Deacon, ‘Globalization and Social Policy: The threat to equitable welfare’ (Occasional Paper No 5, United Nations Research Institute for Social Development, Geneva 2000) vii.

¹⁰ For example, Ramesh Mishra, ‘Beyond the Nation State: Social Policy in an Age of Globalization’ (1998) 32 *Social Policy & Administration* 481; and Ramesh Mishra, *Globalization and the Welfare State*, 1999.

¹¹ Ramesh Mishra, ‘Beyond the Nation State: Social Policy in an Age of Globalization’ (1998) 32 *Social Policy & Administration* 481.

¹² Ramesh Mishra, *Globalization and the Welfare State*, 1999, ix.

speculative and ahistorical, which is problematic in terms of its validity, accuracy and the degree of generalization from short-term, cyclical or local changes involved”.¹³ In many cases increased globalisation has resulted in welfare state expansion, rather than the suggested retrenchment suggested by those following the strong globalisation theory.¹⁴ However, many developed welfare states have experienced, to a greater or lesser extent, a degree of benefit reduction since the 1970s, although total welfare expenditure has not always declined.¹⁵

The International Monetary Fund argues that globalisation does not reduce national sovereignty; instead it creates “a strong incentive for governments to pursue sound economic policies”.¹⁶ In support of this view, it is suggested that there are political choices available within the context of globalisation; reduction of spending and services is not the only option. An alternative is to increase spending on some areas of social welfare provision to increase productivity and attract investment.

A frequently raised argument on the impact of globalisation on taxation is that it moves taxation from mobile factors (such as labour) towards less mobile factors (such as consumption), which then has the potential to reduce the tax intake and leads to the aforementioned problem of restricted funding for welfare expenditure. However, research is now also challenging this suggestion; for example, empirical analysis of the majority of OECD countries during both the pre-globalisation period (1946-80) and the globalisation period (1980-2000) by Navarro, Schmitt and Astudillo finds, contrary to predictions, that capital taxes have increased and labour taxes have decreased in the majority of OECD countries.¹⁷ There is no argument that tax rates have decreased in most OECD countries over the period of globalisation.¹⁸ However, this has not resulted in decreases in tax revenue, instead leading to greater changes in the tax mix, such as increases in indirect taxation. As observed by Hines, taxes on internationally mobile activity represent only a small fraction of total revenue collection, whereas personal income taxes, consumptions taxes and, in some countries, social security contributions, make the greatest input towards financing welfare expenditure.¹⁹

¹³ Nicola Yeates, ‘Social Politics and Policy in an Era of Globalization: Critical reflections’ (1999) 33 *Social Policy & Administration* 375.

¹⁴ Martin Rhodes, ‘Globalization and West European Welfare States: A critical review of recent debates’ (1996) 6 *Journal of European Social Policy* 307.

¹⁵ Duane Swank, ‘Withering Welfare? Globalisation, political economic institutions, and contemporary welfare states’ in L Weiss (ed) *States in the Global Economy: Bringing domestic institutions back in*, 2003, 69 and Linda Weiss, ‘Is the State being “Transformed” By Globalisation’ in L Weiss (ed) *States in the Global Economy: Bringing domestic institutions back in*, 2003, 295.

¹⁶ International Monetary Fund. *Globalization: Threat or Opportunity?* 2000, 9.

¹⁷ Vicente Navarro, John Schmitt and Javier Astudillo, ‘Is Globalisation Undermining the Welfare State?’ (2004) 28 *Cambridge Journal of Economics* 151.

¹⁸ See, for example, discussion in Steffen Mau, 2004, *Globalisation and the Political Visibility of the Welfare State*, Paper prepared for the Second Annual ESPANET Conference, Oxford, 9-11 September 2004; or Steffen Ganghof and Richard Eccleston, ‘Globalisation and the Dilemmas of Income Taxation in Australia’ (2004) 39 *Australian Journal of Political Science* 519.

¹⁹ James R Hines, ‘Will Social Welfare Expenditures Survive Tax Competition?’ (2006) 22 *Oxford Review of Economic Policy* 331. Hines suggests that corporate taxes made up around 10 – 15 per cent of total revenue collections in the 30 wealthiest OECD countries between 1972 and 2004.

B 'Weak' Globalisation Theory

A second argument within the globalisation literature is that while there may be a perceived welfare state crisis,²⁰ globalisation is not the cause.²¹ Genschel suggests that "there is neither theoretical reason nor empirical evidence to believe that national policy autonomy has decreased owing to increasing economic interdependencies".²² Genschel's research, along with the majority of more recent studies and unlike some research undertaken earlier in the 'globalisation period', finds little relationship between globalisation and social spending or national economic policy among OECD countries.²³ Instead, many researchers find expansion of social public expenditures during the generally accepted globalisation period of 1980-2000.²⁴

C The Middle-Ground Approach

A third perspective is proposed by Hobson.²⁵ Hobson calls for a 'middle-ground' approach to the politics of globalisation, arguing that the debate is limited by "its 'either/or' framework: either globalisation is all-powerful and states are impotent; or globalisation is weak and states are dominant".²⁶ Arguing against the strong globalisation 'race to the bottom', and the mainstream conventional arguments (including the suggestion that increasing capital mobility results in reduced taxes and welfare spending), Hobson tests this, and other, propositions by analysing the evolution of tax policy across 23 OECD countries. Hobson finds that aggregate tax revenue burdens trend upwards in the period from 1965 onwards, thus claiming that "it is premature, if not facile, to assume that globalisation signifies the end of the state, or even the 'retreat of the state' and concludes that globalisation both 'constrains and enables states in their fiscal policymaking'".²⁷

It has also been suggested that local influences, including cultural impacts, ideologies and interest groups may create resistance to the path of globalisation in social welfare policy.²⁸ A key argument within this view is that increased international competition raises societal demands for increased welfare protection, thereby limiting the ability of the state to cut welfare spending.

Not surprisingly, there is no agreement among the various schools of thought as to which theory should take precedence. Much research has investigated this topic, and researchers observe that both quantitative and case study research have produced such

²⁰ Rhodes suggests that the idea of a 'crisis' in the welfare state has existed since the early 1970s. Rhodes claims that "whether this amounts to a 'crisis', an 'impasse' or just a difficult conjuncture is a fiercely debated – and politicized – subject". Above n 14, 306-307.

²¹ Philip Genschel, 'Globalization and the Welfare State: A retrospective' (2004) 11 *Journal of European Public Policy* 613.

²² *Ibid.*

²³ For example, Axel Dreher, 'The Influence of Globalization on Taxes and Social Policy: An empirical analysis for OECD countries' (2006) 22 *European Journal of Political Economy* 179; Axel Dreher, Jan-Egbert Sturm and Heinrich Ursprung, 'The Impact of Globalization on the Composition of Government Expenditures: Evidence from panel data' (2008) 134 *Public Choice* 263; or Steffen Mau, *Globalisation and the Political Visibility of the Welfare State*, Paper prepared for the Second Annual ESPANET Conference, Oxford, 9-11 September 2004.

²⁴ Above n17.

²⁵ John M Hobson, 'Disappearing taxes or the 'race to the middle'? Fiscal policy in the OECD' in L Weiss (ed) *States in the Global Economy: Bringing domestic institutions back in*, 2003.

²⁶ *Ibid* 38.

²⁷ Above n25, 56.

²⁸ Above n14, 375.

varying results as globalisation can reduce public spending, globalisation can raise public spending and globalisation can have no discernable effect on public spending.²⁹

An example of such research is undertaken by Ferrera, Hemerijck and Rhodes who review the globalisation arguments.³⁰ They find that there is some evidence of external influence on policy makers, but that it is a combination of other economic factors, such as national debt and spending and domestic tax resistance that play the most significant role in constraining social welfare spending in some countries. Ferrera, Hemerijck and Rhodes write:

Nation states are not like markets – easily overrun by economic forces, global or otherwise. Rather they are communities of fate. Policy changes have to be endorsed by elected governments and parliament and must continue to be mediated by national political parties, bureaucracies, and systems of interest intermediation.³¹

Thus, the authors suggest that globalisation is much less influential than frequently acknowledged.

Timonen also argues that globalisation theories tend to assume that there is no choice at a national level.³² However, Timonen suggests that when investigating cases of retrenchment policies, it can be found that politicians are reluctant to change popular policies and interest groups are frequently capable of influencing policy through the protest mechanism or the voting option. As Timonen notes “politics, in other words, has not been dwarfed by the markets”.³³

D Globalisation And Tax Reform

Researchers suggest globalisation will result in greater inter-dependency in tax systems as geographical mobility increases and individuals become more sensitive to marginal tax rates.³⁴ Considerable reform has taken place in OECD country tax policies over the past two decades. Steinmo claims that in the ten years between 1984 and 1994, every OECD country either made or suggested major tax system restructuring.³⁵ Typically these reforms include broadening the tax base, reducing the tax rates and a greater focus on consumption taxes. A common theme among the reforms has been increased efficiency and greater neutrality among the tax systems. A further trend has been to curtail tax incentives in some areas.

Steinmo suggests that globalisation is playing a key role in the restructuring of tax systems in industrial democracies and this restructuring will have a significant impact on the future of the welfare state.³⁶ The arguments supporting this proposal start with the increased mobility of capital, leading to pressure to reduce both the burden of tax on capital, but also on the wider economy. Steinmo then argues that with reduced tax

²⁹ For example, Francis G Castles, ‘Social Expenditure in the 1990s: data and determinants’ (2005) 33 *Policy and Politics* 413 and Philip Genschel, ‘Globalization and the Welfare State: A retrospective’ (2004) 11 *Journal of European Public Policy* 613.

³⁰ M Ferrera, A Hemerijck and M Rhodes, ‘The Future of the European “Social Model” in the Global Economy’ (2001) 39 *Journal of Comparative Policy Analysis* 163.

³¹ *Ibid* 164.

³² Virpi Timonen, *Restructuring the Welfare State: Globalization and Social Policy Reform in Finland and Sweden*, 2003, 47.

³³ *Ibid*.

³⁴ For example, Jeffrey Owens, ‘Globalisation: The implications for tax policies’ (1993) 14 *Fiscal Studies* 21.

³⁵ Sven Steinmo, ‘The End of Redistribution? International pressures and domestic tax policy choices’ (1994) 37 *Challenge* 9.

³⁶ *Ibid*.

revenues, it becomes necessary to reduce public spending. Steinmo notes the potential for a negative by-product from globalisation, impacting on the “ability for governments to intervene in their domestic economies, to affect the distribution of wealth and income in society and, ultimately, to raise revenues for the modern welfare state”.³⁷

In much of the literature a link is made between the adoption of neo-liberal policies, and globalisation and the welfare state. A key argument is that global adoption of neo-liberal policy results in an environment necessitating “systematic welfare retrenchment”.³⁸ Wilding argues that neo-liberalism is the dominant ideology of the global economy, writing: “neo-liberalism is a force for, and ideally requires, globalization”.³⁹ The neo-liberal ideology is associated with a reduction of taxation rates, reduction of the financial burden of the welfare state and reduction of collectivist values. As noted by Yeates:

neo-liberal ideology emphasizes the limited influence and effect that governments can exert over national economic performance or in subverting the ‘natural’ outcomes of global markets, while stressing the costs of certain courses of political action; economic success (and prosperity) or failure (and hardship) in an interdependent and competitive global economy is seen as depending on maintaining a competitive advantage.⁴⁰

Stryker suggests that under a neo-liberal philosophy, a generous redistributive welfare state must be foregone for a national economy to remain competitive.⁴¹

Mishra suggests New Zealand (along with the United Kingdom and the United States of America) is at the forefront of countries where:

globalization and strong neoliberal tendencies in policy-making have come together to erode social citizenship and to weaken, if not repudiate, the earlier commitment to a social minimum as of right. Labour market restructuring, deregulation and taxation policies have combined to create substantial inequalities of income and wealth distribution.⁴²

E The Organisational Role In Globalisation

Generally, different global trade and economic organisations impart different constraints on the policy direction of countries. For example, the OECD, the International Monetary Fund (IMF) and the World Bank are influential in the area of economic and social policy. In some countries these organisations impact on macroeconomic policy, trade, development and investment. Other organisations, such as the United Nations or the International Labour Organisation are more influential in the area of humanitarian concerns, rather than economic issues. A further group of organisations including the World Trade Organisation combine an interest in both humanitarian and economic policy. Influence from these organisations comes in different forms. Mishra suggests that:

by adding to the pressures emanating from financial and capital markets, these global institutions insulate national governments further from the demands of their electorate for social protection. Yet these

³⁷ Above n35, 10.

³⁸ Robin Stryker, ‘Globalization and the Welfare State’ (1998) 18 *The International Journal of Sociology and Social Policy* 10.

³⁹ Above n7, 412.

⁴⁰ Above n14, 379.

⁴¹ Above n39, 9.

⁴² Above n13, 51.

[Intergovernmental Organisations] are not directly representative of or accountable to any elected authority.⁴³

Mishra suggests New Zealand provides a good example of the role that the OECD and the IMF play in promoting deregulation and privatisation.⁴⁴ Mishra argues that the New Zealand reforms in the mid and late 1980s were of the variety favoured by the OECD and the IMF, and that New Zealand become a “test case for implementing neoliberal market reforms”.⁴⁵ The commentary from the OECD on the New Zealand reforms was supportive and the often repeated phrase of changing New Zealand’s tax system into ‘one of the least distorting in the OECD’ is frequently reiterated.

F *The European Experience*

Much of the research on globalisation and social welfare policy has been undertaken in a European context. Steinmo uses policy developments in Sweden to test whether increased international mobility of capital and labour has resulted in reduced taxes and an associated reduction of welfare state provision.⁴⁶ Sweden had the world’s heaviest tax burden and the largest social welfare state, and while some significant changes had occurred in the welfare state, Steinmo finds that “the tax and spending regimes have been changed less than the globalization thesis predicts”.⁴⁷ Steinmo finds that while Sweden had adapted policies in relation to social welfare, there was little support for the suggestion that either the high-tax or generous social welfare system was not sustainable.

Research undertaken by Timonen investigates the impact of globalisation on institutional welfare states in Finland and Sweden.⁴⁸ Timonen notes that when Finland and Sweden joined the European Union in 1995, questions were raised about the potential for generous welfare states to remain in the presence of increasing global competition. The argument raised is that “the high taxes necessitated by generous and extensive welfare programmes and services would weaken work incentives and make Finnish and Swedish products less competitive”.⁴⁹ Timonen finds that the relationship between welfare states and capital is more symbiotic than often thought and that no major Finnish or Swedish companies or corporations relocated abroad during the 1990s, despite the globalisation suggestion that increasingly mobile capital would indicate that they would relocate to the cheapest country.⁵⁰ Overall, Timonen finds

while the pressures of globalization and Europeanization on domestic politics are beyond doubt, their extent and actual impact have been exaggerated... . Globalization and social policy-making at the national level, in accordance with national wishes and “traditional” decision-making procedures, are not mutually contradictory.⁵¹

⁴³ Above n12, 491.

⁴⁴ Above n13, 10.

⁴⁵ Above n13, 10.

⁴⁶ Sven Steinmo, ‘Globalization and Taxation: Challenges to the Swedish Welfare State’ (2002) 35 *Comparative Political Studies* 839.

⁴⁷ *Ibid.*

⁴⁸ Above n33.

⁴⁹ Above n33, 1

⁵⁰ Above n33, 48.

⁵¹ Above n33, 48.

Deacon adopts a broader research perspective and investigates the impact of globalisation and social welfare in a European context.⁵² Deacon finds that different kinds of welfare state have reacted in dissimilar ways to the forces of globalisation and argues that countries that have privatised welfare provision are aligned with globalisation, but have traded-off some elements of equity. As with Steinmo and Timonen,⁵³ Deacon finds that Nordic countries “have been surprisingly sustainable in the face of global competitive pressures due to political will to maintain them”.⁵⁴ However, in some southern European countries, Deacon suggests that increased national debt has limited capacity to provide generous welfare support, which has threatened social and labour standards.

Timonen uses the example of pension reform in the United Kingdom to demonstrate the importance of pre-existing policy structures when restructuring.⁵⁵ Timonen observes that extant policies influence the likelihood of individuals to mobilise against cutback proposals. Moreover, policies that are defended by strong interest groups are less likely to be the target of reform.

G The Australasian Experience

McClelland and St John suggest three potential social policy responses to the presence of globalisation:

1. differing political ideologies, which may impact on the policy direction followed;
2. institutional influences, which constrain implementation of different policy options; and
3. different uses of neo-liberal economic and industrial relations policies, which impact on variables such as the level of benefits provided.⁵⁶

On application of these three responses to the changes in social policy in Australia and New Zealand, McClelland and St John suggest that differences in institutional arrangements may have played the most significant role.⁵⁷ McClelland and St John assert that, in particular, the relationships with the trade unions in Australia, the absence of a Senate majority by the government and the existence of State governments all acted to influence social policy outcomes.

IV DEVELOPMENT OF RETIREMENT SAVINGS POLICY IN AUSTRALIA

A Prior to 1975

Superannuation provision in Australia can be traced back to the mid 1890s with the introduction of public sector superannuation in South Australia in 1854.⁵⁸ The states of New South Wales, Victoria and Queensland all implemented state provided old-age pensions between 1900 and 1908. These pensions were non-contributory flat-rate payments, which were means and asset tested. All these schemes continued to operate

⁵² Above n9.

⁵³ Above n46 and n32.

⁵⁴ Above n9.

⁵⁵ Above n32, 28.

⁵⁶ Above n7, 178.

⁵⁷ Above n8, 187.

⁵⁸ Knox provides three reasons for provision of occupational superannuation. These were; to improve efficiency within the workplace through a strategic retirement plan for older employees, secondly to remove any moral obligation that an employer may have had to support retiring individuals who had provided many years of loyal service and finally to protect employers from certain industrial actions by employees (such as fraud or withholding of labour). David M Knox, *A Review of the Options for Taxing Superannuation*, 1990, 3.

until the introduction of the *Invalid and Old Age Pensions Act 1908* and the subsequent implementation of the Commonwealth scheme in July 1909. Between its implementation in 1909 and 1940 the *Invalid and Old Age Pensions Act 1908* was amended on twenty occasions.⁵⁹ However, these changes were not significant and primarily related to changes in the pension rate and structure.

Encouragement for occupational superannuation first occurred in 1915 when legislation was passed to permit employers to deduct superannuation contributions against assessable income.⁶⁰ However, little significant change was to occur in either state provision or the treatment of voluntary retirement savings for around 70 years.

Until the 1970s the Australian pension was granted on the basis of need, with the existence of income and property tests. Means testing has been one of the more contentious areas of government provided superannuation, with numerous changes to the levels and age of eligibility over the years.

B 1975 – 1987

Prior to 1982, tax concessions for superannuation were extremely generous. Employer and employee superannuation contributions were tax exempt. Voluntary contributions to retirement savings funds were generally deductible. Tax exemptions existed for fund earnings and only five per cent of lump sum benefits were included as assessable income. Payments received in the form of a pension were assessable income. This is representative of the EET scheme which is common in OECD countries today (although lump sum payments were effectively EEE). However, despite this generosity, superannuation coverage for the general work force remained low until the 1980s.

Along with equity, a further concern with the tax treatment of superannuation in the early 1980s was the tax minimisation arrangements that were encouraged by the tax system.⁶¹ Furthermore, the tax treatment of lump sums discouraged the taking of pensions and annuities. In response to these problems, and in an attempt to preserve at least some funds for the purposes of retirement, on 1st July 1983 the Government introduced new tax arrangements, which saw an increase from five per cent of lump sum payments to the full amount included as assessable income, subject to a maximum marginal rate of 30 per cent. Contributions by employees and the self employed after 1 July 1983 that did not attract a tax deduction (known as undeducted contributions) were tax exempt.⁶²

As an incentive to preserve benefits for genuine retirement purposes, the 30 per cent tax on the first A\$55,000 of the post-30 June 1983 component was reduced to 15 per cent if taken after the age of 55. The legislation also provided tax relief where funds were rolled over into approved superannuation funds and not accessed until after the age of 55.

⁵⁹ T H Kewley, *Australian Social Security Today: Major developments from 1900 to 1978*, 1980, 17.

⁶⁰ Senate Select Committee on Superannuation, *Super Guarantee Bills*, (1992) Second report of the Senate Select Committee on Superannuation, 10.

⁶¹ The cost of tax incentives for retirement saving was estimated at A\$2 billion, and it was argued that the concessions went “mostly to people who are neither needy nor poor”. Parliament of the Commonwealth of Australia. *Economic Statement May*, 1988.

⁶² The amended tax arrangements for lump sum payments were expected to yield revenue savings of around A\$10 million in the first year, increasing to around A\$300 million over time. Parliament of the Commonwealth of Australia. *Economic Statement May*, 1988.

A significant development in relation to both industrial relations and superannuation during the early period of globalisation was the Accord between trade unions and the Government.⁶³ The Accord provided for greater government consultation and facilitated involvement by the trade unions. Six variations on the Accord occurred between 1983 and 1991. A key component of the Accord was the inclusion of occupational superannuation in the process.

It was not until December 1985 that the Labor government confirmed the introduction of occupational superannuation under the centralised wage system, determining that a three percent increase in productivity would be distributed to workers in the form of occupational superannuation. However, the National Wage Case decision applied only to Federal awards, so employees covered by State awards, or those who had no award coverage were not covered by the decision.

Tax concessions remained generous when compared to other OECD countries at this point. The cost of superannuation tax concessions were estimated for the 1985-86 financial year at A\$3.1 billion.⁶⁴

C 1988 – 1992

Australia experienced significant tax changes to retirement savings in 1988. The May 1988 Economic Statement announced that instead of applying tax of 15 or 30 per cent on final benefits,⁶⁵ funds would pay 15 per cent tax on employer contributions, while the tax on end benefits would be reduced by the same rate. By allowing earlier tax collection, the cost of the superannuation arrangements would reduce but, theoretically, without impacting on the incentive to save. Accordingly, the new tax rates on lump sums were reduced to zero on the first A\$60,000 (a concessionary indexation from the previous threshold) and 15 per cent on the remainder. In addition, pensions or annuities paid from taxed funds received a 15 per cent rebate. For lump sums withdrawn earlier, the entire lump sum was taxed at a rate of 20 per cent.

A further change was the introduction of a 15 per cent tax on superannuation fund earnings. The purpose of this was to bring superannuation funds within the imputation system for company taxation, from which they were previously excluded. However, a secondary purpose existed, which was to increase government revenue by around A\$1 billion.

Other, more minor changes included tightening the maximum benefit limits⁶⁶ and the reintroduction of graduated Reasonable Benefit Limits (RBLs) to discourage the

⁶³ The formal title is the *Statement of Accord by the Australian Labor Party and the Australian Council of Trade Unions Regarding Economic Policy*. The Accord was endorsed by a special conference of all unions affiliated to the Australian Council of Trade Unions (ACTU) in February 1983. The Accord was intended to encourage economic growth, reduce unemployment and lower inflation. Singleton writes that “the basis of the policy was agreement by the ACTU, the peak union body, to accept full wage indexation and centralized wage-fixing. In return the Hawke government would provide compensatory tax cuts, improvements to social security benefits and a range of supporting policies that would satisfy other union objectives”. Gwynneth Singleton, *The Accord and the Australian Labour Movement*, 1990, 1.

⁶⁴ Hansard, Senate, Volume 120, 26 March 1987, 1390.

⁶⁵ That is, 15 per cent on the first A\$55,000 and 30 per cent on any excess, or 30 per cent for the whole component if taken as a lump sum before the age of 55, relating to employment after 1 July 1983. Parliament of the Commonwealth of Australia. *Economic Statement May*, 1983.

⁶⁶ This change was expected to only impact on those earning over A\$70,000 per annum.

conversion of salary into tax-advantaged occupational superannuation schemes providing benefits “in excess of reasonable retirement income requirements”.⁶⁷

In 1991, the Australian industrial court (the Industrial Relations Commission) rejected an application for a further three per cent Productivity Award Superannuation increase, despite support for the application by the government and the unions. The government response was to introduce the Superannuation Guarantee Levy (the Superannuation Guarantee) in 1992. The Superannuation Guarantee started at three per cent of employee earnings on 1 July 1992, and gradually increased to nine per cent by 1 July 2002. It remains at nine per cent today and over 90 per cent of Australian workers have superannuation coverage.⁶⁸

D 1993 – 2007

During this 14 year period, changes continued to be made to superannuation and the tax treatment of superannuation. They included:

- changes to the amount of deductible contributions that could be claimed by an employer, with the removal of the ‘standard contribution limit’;
- changing Reasonable Benefit Limits from a multiple of highest average salary to fixed dollar amounts;
- a tax surcharge of 15 percent for superannuation contributions by high income earners (known as the Superannuation Surcharge);⁶⁹
- capital gains tax relief for small business owners, where a capital gains tax exemption could be claimed when a small business was sold and the proceeds were used for retirement. The exemption was available for a maximum gain of A\$500,000 under certain circumstances;
- a new savings rebate;⁷⁰ and
- introduction of more generous government superannuation co-contributions.

E 2007 Amendments

Significant changes to the taxation of superannuation benefits were implemented from July 2007. A key aim was to simplify the system and it is generally accepted that these changes have, after many years, gone some way towards achieving this. The key beneficiaries are individuals withdrawing funds from taxed superannuation funds after the age of 60. These benefits are tax free, regardless of whether they are in the form of a lump sum or a pension. Benefits paid to persons aged over 60 from an untaxed fund are taxed at 15 per cent on the first A\$700,000. Benefits above this level are taxed at the top marginal rate.

In addition, Reasonable Benefit Limits were abolished and the age-based contribution limits were amended to one level regardless of age.⁷¹ The 15 per cent tax

⁶⁷ Parliament of the Commonwealth of Australia. *Economic Statement May*, 1988.

⁶⁸ Certain exemptions apply, for example, for employees less than 18 years, very low-income earners and non-residents.

⁶⁹ Introduced in 1996, this was reduced by 1.5 per cent in each of the years from 2002 to 2005, before being removed in 2005.

⁷⁰ A tax rebate was available for personal superannuation contributions made from post-tax income up to a maximum level of A\$3,000. For low- and middle-income earners making personal superannuation contributions the first A\$1,000 of contributions attracted both the savings rebate and the existing ten per cent rebate available to individuals earning up to A\$31,000.

on contributions and fund earnings was unchanged. Personal superannuation contributions (undeducted contributions) that are not tax deductible are capped at A\$150,000 per annum while deductible contributions are capped at A\$50,000 per annum (such as employer contributions).

V DEVELOPMENT OF RETIREMENT SAVINGS POLICY IN NEW ZEALAND

A Prior to 1975

It is generally accepted that New Zealand (and Australia) at the start of the 20th century, and for some years after, were ahead of much of the world in many aspects of social policy.⁷² The seminal legislation that put New Zealand at the forefront of international social policy was the *Old Age Pension Act 1898*. The *Old Age Pension Act 1898* provided a modest pension of around one-third of a working-man's wage, with strict eligibility criteria.⁷³

After the implementation of the targeted old age pension, successive governments looked for ways to encourage people to provide for their own retirement rather than relying on state funded pensions. Incentives introduced included the establishment of the National Provident Fund in 1910, and tax concessions for investment in private superannuation, the investment earnings of superannuation funds and employer contributions to superannuation funds.

The 40 years between the *Old Age Pension Act 1898* and its successor, the *Social Security Act 1938*, did not result in any significant changes to the old age pension. The *Social Security Act 1938* introduced a dual publicly provided pension system. Individuals of retirement age who had been resident in New Zealand for 20 years could choose between an age benefit payable at age 60, which was not taxed, but was subject to an income test; and a superannuation benefit payable from the age of 65, which was not income tested, but was taxable.

B 1975 – 1987

New Zealand endured an unpopular and short-lived compulsory superannuation scheme from April 1975. Every employee aged between 17 and 65 was required to belong to either the New Zealand Superannuation Scheme, as it was known, or an approved private scheme. The scheme lasted until a change of government in 1977, at which point National Superannuation was introduced.

National Superannuation was a universal benefit available to those aged 60 years or over who satisfied a residency test. It was payable at 70 per cent of the average ordinary-time wage and financed out of ordinary government revenue on a pay-as-you-go basis. By 1981, New Zealand's spending on superannuation provision had become significantly more than other OECD countries at 17.3 per cent of government spending, compared to around 11 per cent of government spending in Australia and Britain.⁷⁴

In the early 1980s, personal contributions to superannuation funds were tax deductible to both the individual (to a limit of NZ\$800 if in an employer subsidised

⁷¹ This is A\$50,000 on an annual basis. Contributions above this amount will not benefit from concessional tax treatment and will be taxed at the top marginal rate of tax.

⁷² Francis G Castles, *The Working Class and Welfare: Reflections on the political development of the welfare state in Australia and New Zealand, 1890 – 1980*, 1985, 17.

⁷³ David Preston, *Retirement Income in New Zealand: the Historical Context*, 2001, 10.

⁷⁴ Margaret McClure, *A Civilised Community: A History of Social Security in New Zealand*, 1998, 194.

scheme or NZ\$1,000 if no subsidy was provided) and deductible to the employer up to a ceiling of NZ\$700 per employee for a lump sum benefit or ten per cent of wages or salary for a pension benefit. Earnings of the funds were not taxed and lump sum superannuation was not taxed on withdrawal. Pension superannuation funds were taxed as part of personal income on withdrawal, although in many cases pensions were commuted in some part to a lump sum on retirement, thereby avoiding tax.

In 1982, fund earnings for lump sum superannuation schemes became taxable at 33 per cent. This was expected to generate additional revenue of approximately NZ\$75 million per annum.⁷⁵ Pension payment fund earnings remained tax exempt.

In the 1984 Budget, some of the personal tax exemptions for life insurance premiums and superannuation contributions were removed.⁷⁶ These were for contracts entered into after the night of the Budget for life insurance, personal lump sum superannuation schemes and non-subsidised employee lump sum superannuation schemes. While this move brought the tax treatment of life insurance policies and personal lump sum superannuation schemes closer to a TTE income tax treatment, investment earnings were not taxed at the marginal rate of the member, but at the standard rate of 33 per cent. This was punitive for lower marginal tax rate taxpayers, and concessional for those on higher marginal tax rates. Employee lump sum schemes remained under the ETE system, with investment earnings also taxed at the standard rate of 33 per cent. Personal and employee pension superannuation schemes continued under the extant EET system. Estimated costs of these tax concessions for superannuation were NZ\$440 million of net revenue foregone.⁷⁷

The most significant change of this period occurred in December 1987 when the Government announced a number of changes to the way superannuation scheme savings were to be taxed. The key changes were:

- contributions to superannuation schemes would be from taxed income;
- income earned within superannuation schemes would be taxed at a rate approximating the marginal tax rate of fund members; and
- funds from superannuation schemes would be free of tax on withdrawal.

The aim was a 'level playing field' for investment, but a strong link was made between the removal of superannuation incentives and the introduction of lower personal tax rates. In addition, removal of the tax concessions was seen to improve equity within the tax system.⁷⁸

⁷⁵ Memo from the Caucus Committee to the Minister of Finance, 11 June 1982. New Zealand Archives reference AALR, 873, W4446, 632, 76/2/54, Part 1.

⁷⁶ After 8 November 1984, contributions to employer-subsidised superannuation funds (both pension and lump sum) were deductible up to NZ\$1,200 per annum. Contributions to personal pension schemes and non employer-subsidised employee pension schemes were deductible up to NZ\$1,400 per annum. Contributions to personal lump sum schemes and non employer-subsidised employee lump sum schemes were not deductible. Investment income of superannuation funds for lump sum policies (personal, employer-subsidised or non-employer subsidised) were subject to tax at 33 per cent from 1 April 1985. Investment income of superannuation funds for pension policies was tax exempt. Benefits from lump sum schemes were tax exempt and benefits from pension schemes were generally taxable.

⁷⁷ Memo from the New Zealand Treasury to the Minister of Finance, 23 October 1985. New Zealand Archives reference AALR, 873, W4446, 632, 76/2/54, Part 2.

⁷⁸ Tax incentives in relation to superannuation and life insurance was seen as 'to a large extent, captured by a section of society which is predominantly made up of male middle-aged professionals belonging to high-income socio-economic groups' (New Zealand Government, *Government Economic Statement*, 1987, 3). If continued into 1988/89, the tax concessions were estimated to cost the Government NZ\$800 million in tax revenue foregone (New Zealand Treasury, *Government Management: Brief to the Incoming Government 1987, Volume 1*, 1987, 21). The elimination of this

C 1988 – 1992

The election of the National Party in 1990 saw a number of proposed cuts to superannuation, as part of an overall reduction in welfare spending. Contrary to election pledges, these included ‘freezing’ the pension for three years, increasing the age of eligibility to 65 and replacing the unpopular surcharge⁷⁹ with a regime that clawed back even greater amounts of superannuation. The considerable unpopularity of these proposals saw their withdrawal in 1991, although the increase in age of eligibility remained and the surcharge was replaced with a more rigorous income test.⁸⁰

The Task Force on Private Provision for Retirement (more commonly known as the Todd Task Force) was appointed by the National Government in October 1991 to report on policy options to encourage self-reliance in retirement. As was to become the pattern for the future, the Task Force did not make any major policy reforms, although it did provide three ‘model’ options for retirement savings.⁸¹ The Task Force reiterated the need to increase savings and the need to support long term savings, but concluded that neither of these two issues provided a strong argument in support of tax incentives.

D 1993 – 2007

The 1996 election resulted in a National and New Zealand First Party coalition. The Coalition Agreement between the National Party and New Zealand First outlined the intent to introduce a compulsory savings scheme on 1st July 1998, if approved under a referendum. The proposed scheme was to have contribution rates of three per cent starting in 1998/1999, increasing to a maximum level of eight per cent in 2002/2003, with the intention of assisting each income earner to save NZ\$120,000 before retirement. When the compulsory scheme was taken to a referendum it was soundly defeated with nearly 92 per cent of voters rejecting it.⁸²

The New Zealand Superannuation Fund was introduced in 2001. The New Zealand Superannuation Fund is intended to partially fund the future cost of New Zealand Superannuation through a ‘smoothed pay-as-you-go’ approach. The Fund will take contributions from budget surpluses to 2025, after which time it will be drawn on to help fund the future costs of superannuation.⁸³

tax expenditure allowed for a reduction in overall income tax rates by about 2.5 cents per dollar for all taxpayers, after making superannuation benefits non-taxable.

⁷⁹ The surcharge was introduced by the Labour government in 1985.

⁸⁰ As a result of the changes the share of the universal pension cost reduced from nearly eight per cent of GDP in the early 1980s to just over five per cent by the late 1990s. Above n73, 18.

⁸¹ The three options were a voluntary ‘neutral’ option based on the existing tax regime for savings, an incentive option based on tax concessions and a funded compulsory option requiring contributions from employees and the self-employed.

⁸² The proposed scheme had significant opposition from a number of areas, including two-thirds of National Party cabinet ministers, the major opposition parties, trade unions, the Employer’s Federation and Grey Power (Kent R Weaver, *New Zealand: The supreme political football*, Center for Retirement Research at Boston College, 2002, 23).

⁸³ Demographic changes are the key factor in determining the need for the New Zealand Superannuation Fund. In the 2002/03 period New Zealand Superannuation accounted for 57 per cent of core benefit expenditure (NZ\$4.8 billion) or around four per cent of GDP (J Davey, *Social Monitoring and the Challenge of an Ageing Population*, Paper prepared for The Visible Hand Symposium, Victoria University of Wellington, November 2004, 1). Demographic projections forecast New Zealand Superannuation expenditure to remain around this level until around 2012, at which point the numbers of people claiming superannuation are projected to increase, rising to nine per cent of GDP around 2050.

The Savings Product Working Group report in 2004 suggested the introduction of an automatic enrolment scheme when commencing new employment.⁸⁴ This scheme (named KiwiSaver) was accepted by the government and implemented in July 2007.

E 2007 Amendments

The introduction of KiwiSaver accounts in July 2007 initiated an important change in New Zealand retirement savings policy. KiwiSaver is an automatic enrolment occupational retirement savings scheme that is activated when an individual commences new employment. While it is not compulsory, the onus is on the taxpayer to 'opt out' of the scheme if membership is not desired. A NZ\$1,000 contribution to each new KiwiSaver account is made by the government together with some fee subsidisation. In some cases, after a minimum contribution period, the fund may be used as a deposit towards a first home purchase.

A further indication of a significant policy direction change was the 2006 announcement of an exemption from Specified Superannuation Contribution Withholding Tax for employer contributions to KiwiSaver schemes or other complying funds. The tax exemption was for the lower of the amount of the employee's contribution or four per cent of the employee's gross salary or wages. In addition, with effect from 1 July 2007 employees and self-employed individuals who are part of the KiwiSaver scheme will qualify for a tax credit of up to NZ\$20 per week for their KiwiSaver contributions. This is effectively an equal matching credit up to NZ\$20, which will be paid annually into the person's KiwiSaver account.

In addition, and perhaps the most significant change in retirement savings policy in the last two decades, from 1 April 2008 a compulsory matching employer contribution will commence. This will be phased in over a four year period, starting at one per cent of gross income in 2008 and increasing to four per cent by 2011. Employer contributions will also qualify for a matching tax credit up to NZ\$20 per week, which will be made available to the employer to offset the contribution cost. The cost of these proposals is forecast to be NZ\$680 million in the 2008/2009 income year, assuming a 50 per cent acceptance rate.

VI INTERNATIONAL INFLUENCE

The influence of global organisations on social policy is manifested in different ways in different countries. Of particular relevance for the taxation of retirement savings is the World Bank model. Typically, the World Bank advocates welfare policies that include a basic state provided safety-net with privatised welfare support.⁸⁵ For example, the World Bank recommends a three-tier model for retirement savings: state provision, compulsory occupational schemes and private voluntary savings.⁸⁶ All OECD countries have developed first-tier schemes, although these are of different types including social assistance, separate targeted retirement income programmes, basic pension schemes and minimum pensions within earnings-related plans.⁸⁷ All OECD countries, with the exception of New Zealand and Ireland,

⁸⁴ Savings Product Working Group, *A Future for Work-Based Savings in New Zealand*, 2004.

⁸⁵ Above, n9.

⁸⁶ World Bank, *Averting the Old Age Crises*, 1994, 15.

⁸⁷ For further detail on these schemes refer to Organisation for Economic Co-operation and Development, *Pensions at a Glance: Public Policies Across OECD Countries*, 2005, 22.

also have contributory state schemes and extensive state involvement in private superannuation arrangements.

Until mid-2007, New Zealand operated a two-tier system: a basic state pension paid from general revenue and voluntary private savings. While there are still no compulsory savings arrangements in New Zealand, a small tax incentive was introduced with KiwiSaver accounts in July 2007.

The Australian pension system has had three tiers for many years, with two tiers of state involvement. The first tier is a means-tested pension. The second tier is the Superannuation Guarantee. Among OECD countries, Australia has the largest mandatory defined contribution scheme, where employers pay nine per cent of their employees' earnings into a pension account. In addition, voluntary private savings schemes exist.

Perhaps the best indication of the extent to which global policies have been adapted in retirement savings is by a simple comparison of the basic approaches adopted. Typically, it is expected that countries with comparable levels of development will respond to similar problems with similar methods. In part, this can be explained by the limited number of possible policy solutions, but also in part due to increasing interdependence between countries. The policies for the taxation of retirement savings policy in a number of OECD countries are outlined in Table 1. The table indicates that an EET approach is the most common system among OECD countries.⁸⁸ New Zealand and Australia are both conspicuous outliers in their approach to the taxation of retirement savings.

Table 1: Tax Treatment of Private Pensions in Selected OECD Countries⁸⁹

EET		ETT	TTE	
EET	EET		tTE	ttE
Belgium	Austria	Denmark	New Zealand	Australia
France	Canada	Italy		
Germany	Finland	Sweden		
Ireland	Greece			
Japan	Iceland			
Korea	Netherlands			
Mexico	Norway			
Portugal	Poland			
Slovak Republic	Switzerland			
Spain	United States			
Turkey				
United Kingdom				

While the similar 'coding' may appear to indicate that the tax systems are alike in Australia and New Zealand, in reality the systems are quite different. While tax is levied at similar times, the levels of tax concession at these points provide for different levels of encouragement for retirement saving in each country.

⁸⁸ Refer to Part II for explanation of these acronyms.

⁸⁹ Adapted from Kwang-Yeol Yoo and Alain de Serres, *Tax Treatment of Private Pension Savings in OECD Countries*, 2004.

To ascertain the impact of international input into New Zealand and Australian policy approaches, interviews were conducted with a number of individuals who were involved in the development of retirement savings policy from the mid-1980s in New Zealand and Australia. When Australian participants were asked if international policy influenced the Australian policy in the mid-1980s and early 1990s, typically the response received was that there was none. The following comment from a senior Australian bureaucrat is representative: “No. There was no international influence: none at all. We were aware that what we were doing was unique, but our starting point was unique”.

When interview participants in New Zealand were questioned about international influence on New Zealand policy development during the same time, they cited a wider range of international sources.⁹⁰ However, while there was interest within the New Zealand Treasury of what international researchers were advising, this did not necessarily translate into acceptance of these views. A senior New Zealand bureaucrat advised:

We were trying to do things on a ‘first-best’ basis. We took account of the theoretical positions and tried to work from that to practical policy, but we didn’t put a lot of weight on what other countries did ... if they didn’t make economic sense, we weren’t influenced by them. We weren’t into the business of matching them.

Outlining a similar view, a senior New Zealand bureaucrat advised: “in those days we were very heavily driven by what was right theoretically – not what the rest of the world was doing – so it didn’t have much impact”. Nonetheless, individuals such as Ian Harper and Ted Sieper (both Australian academics) were influential in the New Zealand policy process in the mid-1980s; Ian Harper through the presentation of the paper *Taxation of Superannuation in New Zealand: Agenda for Reform*, and Ted Sieper through his work with the New Zealand Treasury in the mid 1980s.⁹¹ However, it should be noted that both academics supported the position that the New Zealand Treasury had made it apparent that it wanted to adopt.⁹²

The policy approach of New Zealand continued to resist global influence in the early 1990s, at the time when Australia was implementing a compulsory retirement savings scheme. The New Zealand Task Force on Private Provision for Retirement analysed international approaches to retirement savings, concluding that each country’s

⁹⁰ Such as the Committee of Inquiry into the Australian Financial System in 1981 (also known as the Campbell Committee report), an Australian report on the financial industry, which entered into a comprehensive discussion on tax incentives.

⁹¹ Ian Harper, *Taxation of Superannuation in New Zealand: Agenda for reform*, Paper presented to a seminar on the Taxation of Superannuation in New Zealand, Wellington, May 1985.

⁹² The views of the New Zealand Treasury are apparent from the start of the 1980s. For example, correspondence in 1980 states “ideally the tax system should not favour any one type of savings instrument...” (correspondence from the Treasury to the Minister of Finance, 12 May 1980. New Zealand Archives reference AALR, 873, W5427, Box 1898, Record 76/13/6, Part 1). Statements in a Treasury Report of May 1982 include “it is desirable that the tax system be as neutral as possible between different activities including between the variety of financial instruments and institutions available in the capital market” and “it would be desirable to introduce neutral tax treatment for superannuation funds as soon as possible” (New Zealand Treasury Report T76/3/6/1, New Zealand Archives reference AALR, 873, W5427, Box 1898, Record 76/13/6 Part 4). Correspondence from the Treasury in 1985 suggests “there is no reason why the Government should encourage and subsidise saving for retirement any more than precautionary saving for illness, unemployment or indeed someone’s saving for a consumer item such as a new video” (correspondence between Treasury officials, September 1985, New Zealand Archives reference AALR, 873, W4446, Box 632, Record 76/2/54 Part 2).

retirement arrangements were individual to that country and it was difficult to draw lessons from another country.⁹³ A New Zealand Reporting Group member advised “our distinctive national superannuation arrangements were quite unique and while we had some information from overseas jurisdictions we actually didn’t draw on it to much extent at all”. Meanwhile, Australian academic John Piggott, in a submission to the Australian Senate Select Committee on Superannuation in 1992, wrote that “almost all comparable countries require more or less compulsory participation in national retirement income schemes. This suggests that there are widespread reservations about relying on voluntary saving to adequately self-provide for retirement. There are some good reasons to entertain such reservations”. However, these reservations did not seem to be reflected in the New Zealand debate.

A plethora of New Zealand government instigated reports were produced from the mid 1990s onward from organisations such as the New Zealand Treasury.⁹⁴ Generally these reports found the extant arrangements to be, if not ideal, at least satisfactory. A typical example is the claim by the Periodic Report Group that the system is: “flexible enough to deal with the changes we will face over the next 50 years and that New Zealand is better able to adjust to those changes than many other countries”.⁹⁵

The absence of global influence in New Zealand policy for retirement savings is seen in some of the key events in New Zealand’s retirement savings policy since the mid-1990s, such as the attempt to introduce a compulsory occupational retirement savings scheme in 1997. It was recognised at the time that the issues supporting the proposed scheme were not unique to New Zealand and the compulsory scheme would achieve the result of shifting part of the cost of future retirement benefits to the current taxpayers. However, despite the international evidence supporting compulsion, and the successful uptake by Australia, the referendum was soundly defeated and the issue of compulsion has not prompted serious debate since this time.

The implementation of the New Zealand Superannuation Fund is another example of policy making that was uncommon among OECD countries. The Fund was established in 2001 with the aim of pre-funding some of the future cost of New Zealand Superannuation. As at August 2008, fund assets were NZ\$14.5 billion.⁹⁶ Contributions to the fund, of \$1.5 billion per annum, are contingent on government surpluses. Ireland (the only other OECD country that also does not have a compulsory occupational retirement savings scheme) has adopted a similar policy arrangement. Ireland’s National Pension Reserve Fund is significantly larger than

⁹³ New Zealand Task Force on Private Provision for Retirement, *Private Provision for Retirement: The way forward – final report*. Final Report of the Task Force on Private Provision for Retirement, December 1992.

⁹⁴ For example, Iris Claus and Grant Scobie, *Household Net Wealth: An international comparison*, New Zealand Treasury Working Paper 01/19, 2001; Iris Claus and Grant Scobie, *Saving in New Zealand: Measurement and Trends*, New Zealand Treasury Working Paper 02/02, 2002; New Zealand Treasury, *Savings Incentive Options, Consultation and Analysis*, New Zealand Treasury Report 7, 2001; Periodic Report Group, *Retirement Income Report: A review of the current framework*, Interim Report, 1997a; Periodic Report Group, *Retirement Income Report: Building Stability*, Concluding Report, 1997b; Periodic Report Group, *Retirement Income Report*, 2003; Grant Scobie, John Gibson and Trinh Le, *Saving for Retirement: New evidence for New Zealand*, New Zealand Treasury Working Paper 04/12, 2004; Grant Scobie, John Gibson and Trinh Le, *Household Wealth in New Zealand*, Institute of Policy Studies, Wellington, 2005; Grant Scobie and Trinh Le, *The Impact of Workplace and Personal Superannuation Schemes on Net Worth: Evidence from the Household Savings Survey*, New Zealand Treasury Working Paper 04/08, 2004.

⁹⁵ Periodic Report Group. *Retirement Income Report: A review of the current framework*, Interim Report, 1997a, 4.

⁹⁶ New Zealand Superannuation Fund, www.nzsuperfund.co.nz, October 2008.

New Zealand's fund, with assets of approximately €20 billion (or approximately NZ\$45 billion) at the present time.⁹⁷ Ireland has a population size similar to that of New Zealand, a pre-funding arrangement currently around three times that of New Zealand, a state pension scheme that is less generous than that of New Zealand and around 55 per cent workforce participation in superannuation schemes. These factors indicate that Ireland is considerably more prepared to manage its ageing population in retirement than New Zealand.

It has only been in recent times that the New Zealand Treasury has set out a current position on saving. Prior to 2007, New Zealand Treasury working papers (while not strictly purporting to represent a Treasury viewpoint) have argued that while levels of savings in New Zealand appear low, there was no strong case for any form of intervention. However, in May 2007 the New Zealand Treasury position paper notes the need to adopt a 'least-regrets approach' to policies for savings in the absence of good quality data on which to base decisions and "the possibility that individuals are basing saving decisions on long-run expectations that could turn out to be mistaken".⁹⁸

More recent policy, and in particular the introduction of KiwiSaver accounts in 2007, is the first indication that New Zealand is taking into account a more globally accepted approach to retirement savings and its taxation. The introduction of a small tax incentive has resulted in a high uptake of KiwiSaver accounts, at around one-third of workers, but the future of KiwiSaver remains uncertain in the current political environment.

Conversely, the Australian approach has been more sympathetic towards global policy, despite not appearing to actually be actively adopting an international approach. The introduction of the compulsory occupational savings scheme, the Superannuation Guarantee, was well received in Australia. It was supported by evidence of ageing populations, together with explanations of how individual's would benefit in retirement through active saving over their working lifetimes. Furthermore, the policy was implemented in association with influential groups, such as the trade unions, which assisted in promoting its benefits. There was little disagreement among interested parties in the introduction of compulsory retirement savings in Australia. Furthermore, Australia has continued to support voluntary retirement savings through tax incentives, which have recently become even more concessionary.

The debate on the merits of voluntary versus compulsory savings seems likely to continue in New Zealand. This is despite the generally accepted global perspective that it requires many years of saving at a level of around 10 per cent of salary to maintain an association between working and retirement standards of living. This level of required savings is recognised in the New Zealand June 2006 Official's Report on the KiwiSaver Bill, with the inclusion of figures that are replicated in Table 2 below. The figures shown in Table 2 are the savings rate that is required to *supplement* New Zealand Superannuation to achieve a 70 per cent income replacement in retirement. Therefore, an individual earning the average income of around NZ\$40,000 would need to start saving the minimum level supported by KiwiSaver (four per cent) from the age of 25 to achieve 70 per cent of the average income in retirement, while still receiving the full amount of New Zealand Superannuation.

⁹⁷ Jerry Moriarty, 'Pensions and the Tax System – The "Cost" of Tax Incentives' (2008) *The Irish Tax Review*, 69.

⁹⁸ New Zealand Treasury, *A Synopsis of Theory, Evidence and Recent Treasury Analysis on Saving*, New Zealand Treasury Report T2007/654, 2007, 4.

Table 2: Contribution Rate Required for 70 per cent Income Replacement in Retirement (including New Zealand Superannuation)

Age	Income			
	\$30,000	\$40,000	\$50,000	\$60,000
25	2%-5%	4%-7%	5%-8%	6%-8%
30	3%-6%	5%-8%	7%-10%	8%-10%
40	4%-10%	9%-14%	11%-15%	12%-16%

When officials' were recommending an approach for the future of New Zealand retirement savings in 2006, the lack of support for compulsion was apparent. The Officials' Report on the KiwiSaver Bill states "officials do not recommend compulsory contributions funded by tax cuts".⁹⁹ This approach was supported by the 'usual' arguments, such as equity and cost.

More recently, the 2007 Retirement Commissioner's report has found that New Zealand has "an accessible, portable and highly incentivised savings scheme in KiwiSaver" and "this Review finds no reason to financially incentivise saving for retirement further, or to make it compulsory".¹⁰⁰ Aside from the perhaps embellished claim that Kiwisaver is 'highly incentivised' (at its peak KiwiSaver will attract a four per cent compulsory employer co-contribution), the unique path that New Zealand continues to follow for retirement savings taxation continues. Among other claims in this report, is the finding that "New Zealand retirement income policy is working reasonably well for the currently retired and those approaching retirement". Commentary is lacking on the increasing numbers of individuals that will retire one, two or three decades after the two groups highlighted as being satisfactorily accommodated under the extant arrangements.

It is acknowledged that the state is required to respond to influences beyond that of global markets. Pressures from internal interest groups, historical patterns and cultural impacts will all influence the direction of social policy. In both countries, interview data indicates that more 'local' factors were the key policy drivers and globalisation (at a micro level) had little impact. The key factors in New Zealand related to the environment; the economic crisis and the need for tax reform to improve distortions in the tax system and improve neutrality. Australia's direction was also informed by the environment and economic difficulties. However, three other factors are more apparent in the Australian situation; institutional arrangements were viewed as having a greater influence over the policy direction (such as the union movement and the Prices and Incomes Accord), there was a concern with levels of national savings that was not apparent in New Zealand and the debate focused more on equity issues than economic efficiency.

What may be framed as path dependency appears to be influential in both countries. It is generally recognised that social policy is highly resistant to change and historical policy tends to have a strong impact on future policy. In the case of the policy under investigation, path dependency may take the form of a cultural expectation; New Zealand has a long history of generous state-provided superannuation. Since the 1930s, New Zealand has been known as a 'welfare state' providing universal income support for those in need. Furthermore, since 1975, superannuation in New Zealand

⁹⁹ New Zealand Treasury, *Officials' Report on the KiwiSaver Bill*, 2006, 15.

¹⁰⁰ New Zealand Retirement Commission, *2007 Review of Retirement Income Policy*, 2007, 4.

has been provided at a minimum of 60 per cent of average weekly earnings. This has resulted in a system that would be difficult for any government to target for retrenchment. That the government does not follow the OECD trend and also spend significant sums of money on tax incentives to encourage additional retirement savings may not be surprising in the face of generous universal provision.

Historically, Australia has had less generous state provision and more of a 'safety net' approach. A factor that is also important in this context is that Australia has had a long tradition of negotiation through the industrial relations structure (the Conciliation and Arbitration system). This subsequently resulted in negotiation of the Prices and Incomes Accord, which was to become the foundation of the Superannuation Guarantee.

Despite the doom and gloom predicted by the strong global theorists, the reality is that the welfare state in most OECD countries remains largely 'unharmd' from the onset of globalisation. Reference to the most recent OECD Social Expenditure Database¹⁰¹ indicates that total public social expenditure has (as a percentage of GDP), for most countries, had an upwards trend over the two decades between 1981 and 2001, as seen in Figure 1. The OECD average over this 20-year period has increased from 17.7 per cent of GDP in 1980 to 21.8 per cent of GDP in 2001.

Furthermore, as seen in Figure 2, a similar picture emerged for public social expenditure on old age in many countries. The OECD average has increased from 5.6 per cent of GDP in 1980 to 7.9 per cent of GDP in 2001. This increase may be partly the result of ageing populations, but to provide support for the strong globalisation theory the expenditure would be expected to reduce or stabilise.

It is also important to acknowledge that the state is not the only actor in the policy development process. Globalisation theories focus primarily on the impact of globalisation on the power of the state to influence policy direction. The reality appears to be that 'institutions' such as interest groups, individual bureaucrats or politicians, employer organisations and unions, to name just a few, are all likely to influence policy direction. This can be seen in the Australian situation with the influence of the unions on policy direction. It can also be seen in New Zealand with the strong influence that the New Zealand Treasury had on the policy process. A further indication from the interviews undertaken is that specific individuals (e.g. Roger Douglas in New Zealand and Paul Keating or Bill Kelty in Australia) were also influential in shaping policy in each country.

Ultimately, it may be that New Zealand now has no option but to follow the path set by other OECD countries. Recent figures indicate that private incomes of retired New Zealanders have declined over the past 20 years, since the removal of tax incentives for retirement savings.¹⁰² Furthermore, when levels of retirement savings or participation in occupational superannuation are compared across countries, New Zealand does not return impressive results. Australia now has in excess of A\$1.3 trillion in managed funds (around 60 per cent of which is in superannuation funds) and over 90 per cent of the workforce covered in occupational superannuation

¹⁰¹ Organisation for Economic Co-operation and Development, *OECD Social Expenditure Database*, 2007. The OECD Social Expenditure Database provides data on a number of indicators of social policy, including old age, health, unemployment and other social policy areas.

¹⁰² Ministry of Social Development, *Positive Ageing Indicators*, 2007, 26.

Figure 1: Total Public Social Expenditure as a Percentage of GDP¹⁰³

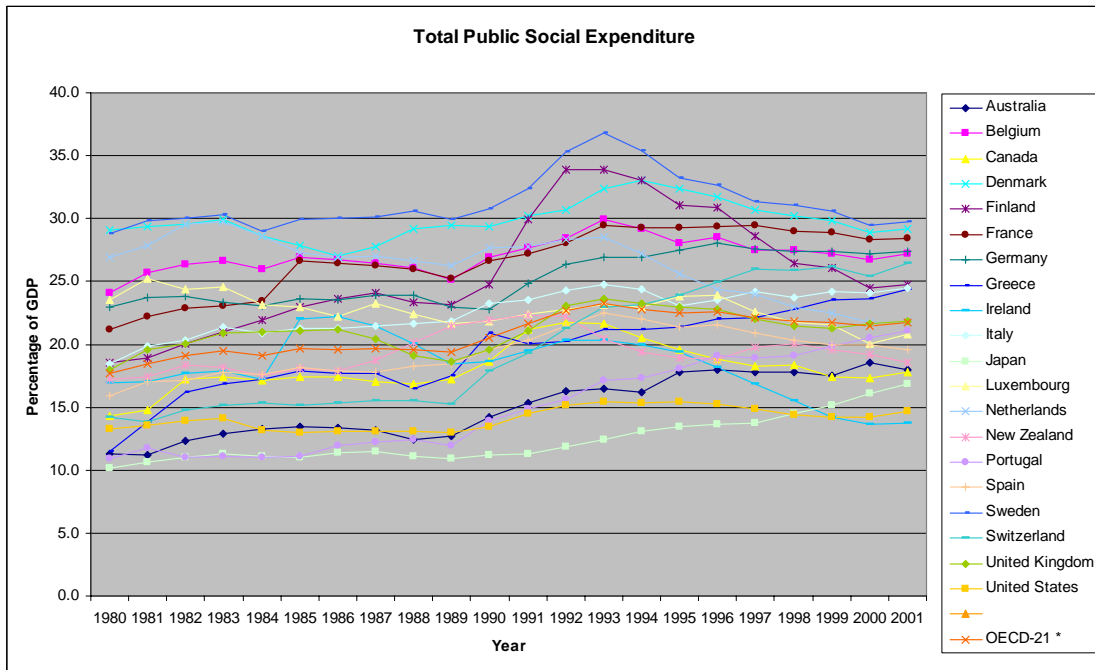
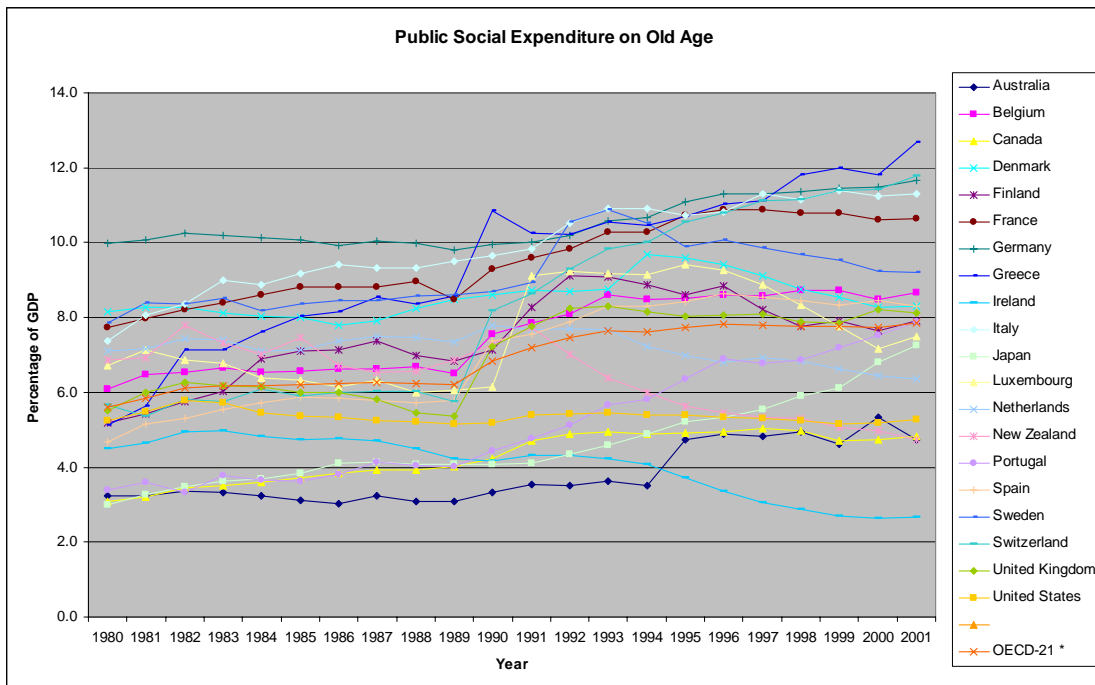


Figure 2: Public Social Expenditure on Old Age as a Percentage of GDP¹⁰⁴



¹⁰³ OECD Social Expenditure Database. Above, n101.

¹⁰⁴ OECD Social Expenditure Database. Above, n101.

schemes. New Zealand has around NZ\$60 billion (approximately A\$53 billion) in managed funds (of which about a third is in superannuation funds) and 13 per cent of active members in employer occupational schemes in 2007.¹⁰⁵

It would be unfair to say that the New Zealand approach has been unsuccessful as, until recently, there has been no indication of a policy objective to increase either private savings or participation in superannuation funds. Conversely, these were both promoted objectives in the Australian environment. Thus, criticism of the New Zealand approach on these grounds is unfounded. However, what may be justified is some questioning of why the New Zealand policy objectives were so different from the rest of the OECD.

While Australia adopted a different form of taxation of retirement saving, it remained highly concessional over the time period investigated, in accordance with other OECD countries. It would appear that globalisation theories, and in particular the 'strong' globalisation theory, do not assist in explaining either the Australian or the New Zealand approach to retirement savings. However, in the case of New Zealand, some reference to 'global wisdom' in policy adoption may be warranted, rather than continuing an experimental policy in isolation to the rest of the OECD.

VII CONCLUSION

There are two key points that arise from this analysis of the literature and the investigation of the retirement savings policies of New Zealand and Australia. Firstly, more recent literature tends to support the contention that globalisation has not limited the ability of countries to retain, or even expand, their welfare state. The greatest influence on welfare state spending is likely to be economic performance.¹⁰⁶ Secondly, just as research has shown that globalisation has not resulted in policy convergence, and as can be witnessed by the examination of New Zealand and Australian policy, globalisation has not placed any apparent restrictions on the retirement savings policy implemented. Both countries were aware of international direction, but neither appeared to be unduly influenced by these trends. New Zealand appeared to seek wider international input into policy direction than Australia, but New Zealand was the country to adopt a scheme for retirement savings that was further away from that of the generally accepted OECD model.

One suggestion that may be proposed from this research is that globalisation has a greater impact at a macro level. At the detailed policy stage it may be that a country's reference to the global arena is less relevant and factors such as history, culture, institutions and even ideology take precedence. This appears to have relevance in both New Zealand and Australia, with factors such as the presence of a generous universal system in New Zealand limiting the appeal for occupational superannuation and the historical arbitration process in Australia facilitating implementation of employment-based superannuation. Other 'local' factors such as the economic environment also appear to play a significant role in the policy direction adopted.

The benefits among New Zealand's approach are not disputed (it is simple, universal and does not discourage employment in later years). However, what is challenged is whether these benefits are sufficient to justify its continuation with the forecast

¹⁰⁵ Ministry of Economic Development Insurance and Superannuation Unit, *Report of the Government Actuary for the Year Ended 30 June 2008*, 2008. Figures are for the year ending 31 December 2007. However, figures are based on returns for balance dates as at March 2007, therefore they do not capture the introduction of KiwiSaver.

¹⁰⁶ Above n19, 330.

demographic changes, an uncertain future economic environment and increasing costs associated with an ageing population, such as health and pensions. Combined expenditure on health and New Zealand Superannuation is forecast to rise from around 11 per cent of GDP at the start of the century to around 19 per cent by 2051. The 'safety net' of the New Zealand Superannuation Fund appears to have ended its run of exemplary returns and will only be the recipient of future funds to the extent that the government runs a surplus over future years; these are all factors that lend great uncertainty to the retirement savings approach adopted by New Zealand.

The outcome for New Zealand is that its late adoption of incentives for retirement savings, combined with a 20-year record of poor savings, leaves the country's retired individuals ill-prepared to face the future. The inter-generational pressure that may arise from the future costs of superannuation is likely to result in a need for increased taxes, which may exacerbate New Zealand's extant problems with retention of skilled workers. Furthermore, unlike Australia, the absence of strong capital markets in New Zealand,¹⁰⁷ at least in part resulting from an absence of low savings, results in minimal equity to support innovative business opportunities, potentially impacting negatively on New Zealand's future economic prospects.

¹⁰⁷ In June 2008, the value of domestic companies listed on the New Zealand Stock Exchange was NZ\$48.8 billion (A\$43 billion), compared with A\$1,288 billion listed on the Australian Stock Exchange. When using a multiplier of five to adjust for the different economy sizes, the Australian Stock Exchange is approximately six times the size of New Zealand's Stock Exchange.